

Trinidad's Finances

FY 2004-2005

Understanding Your City's Budget, Budget Process,
Fiscal Policies and Procedures

Prepared by

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Approved by

Trinidad City Council

August, 2004

Understanding Trinidad's Budget and Finances*

Trinidad Residents:

Each of us should understand how the City Council plans and implements a budget each fiscal year. It's your money and the Council wants you not only to understand how it is processed and spent, but also wants you to participate in the process.

The money we spend is used on a wide variety of services. Some, like police and street maintenance we see every day. Others, like water treatment or accounting we do not see, but they are still critical to keep the City running smoothly.

The following information is our first attempt to explain the budget planning process, where the City's money comes from, and how it is spent. All of this information is public record, but many of us don't have the time to come down to City Hall to look it up. We hope this publication saves you that time and still gives you the education about your City's finances that you want.

Again, this is just a first step, the first time a Trinidad City Council has attempted to explain in laymen's terms how your City's finances work. This first edition is admittedly incomplete and hopefully future Councils will continue to improve it.

Sincerely,

Dean Heyenga, Mayor

Richard Johnson

- Much of the material and ideas for this document came from the CSMFO (California Society of Municipal Finance Officers) website at www.csmfo.org, and special thanks to Lorraine Okabe of the League of California Cities for locating the site. Additional thanks to City Accountant Deborah Brooks, CPA for her comments and review of the draft.

How Trinidad's Budget Is Organized

There are three major types of budget categories:

1. General Fund
2. Enterprise Funds
3. Special Reserve Funds

General Fund

This fund consists of income that is discretionary (unrestricted), i.e. the Council can fund projects based on community need and priorities. The General Fund has four sub-categories:

- a. Administration
- b. Police Chief (other police officers are funded by state grants)
- c. Public Works
- d. Fire

The General Fund is the indicator of the City's financial health. Questions like "Is the City in the red or the black?" refer to the General Fund. More about the General Fund later.

Enterprise Funds

Enterprise funds collect fees for the services they provide. Our two enterprise funds are the Water Fund (we pay for the water we use) and the Cemetery Fund (we pay for burial/cremation plots).

Money collected for these funds must be spent on personnel or activities related to those services. For instance, Water Fund revenues pay for the Water Treatment Plant Operator, chemicals used, repairs to pumps, new fire hydrants, etc. Cemetery funds pay for maintenance, tree trimming, and other cemetery-related expenses.

Enterprise funds must build a reserve to cover long-term expenses. For example, replacing pumps at the water treatment plant will be necessary some day and will be a major expense. There must be money in the water fund to cover such replacements. The Cemetery Fund must accumulate enough reserve so that when the cemetery is filled, the interest from the reserve will ensure that ongoing maintenance costs are covered.

Special Reserve Funds

Some special reserve funds are proscribed by law. These funds receive money for specific purposes and their budget categories describe their purposes. For instance there is the Transportation Development Act (TDA) fund which can only be used for street-related projects.

Other special reserve funds are set up by the City Council and can be changed by Council vote. For instance the Council set up a Government Building fund into which we deposit revenues from a cellular tower lease. The Council decided that these funds will be used for Town Hall.

Summary list of Budget Categories

- I. General Fund (discretionary)
 - A. Administration
 - B. Police
 - C. Public Works
 - D. Fire
- II. Water fund (enterprise)
- III. Cemetery fund (enterprise)
- IV. Integrated Waste Management (special reserve)
- V. Town Government Buildings (special reserve)
- VI. Transportation Development Act (TDA) (special reserve)
- VI. Harbor (special reserve)
- VII. Gas Tax (special reserve)

The General Fund

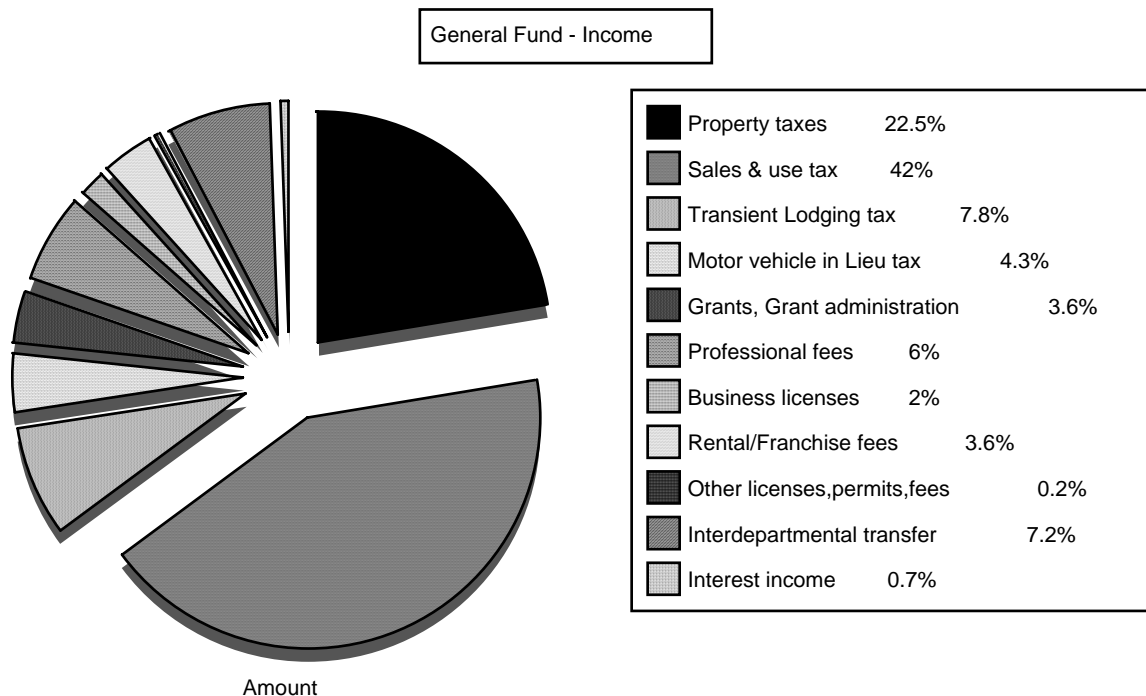
Income*

Income in the General Fund comes from a variety of sources: state taxes, some grants, professional fees, licenses, rents, and franchises and others. The City Council can also transfer money into the General Fund from other sources.

It's important to remember that the budget is a *prediction* based on past experience, changes in state finances, and local developments. For instance, if property taxes last year brought in \$60,000 will this year bring in the same, less, or more? If we expect an increase, we must predict a reasonable increase.

Another complicating factor is that we must adopt a budget before much of the income arrives. We get property tax revenue three times a year, the last payment not arriving until after the end of the fiscal year. *Budgeted incomes are our "best estimate" for the coming year.*

Below is a chart showing the sources and income into the General Fund expected in fiscal year (FY) 2004-2005.**



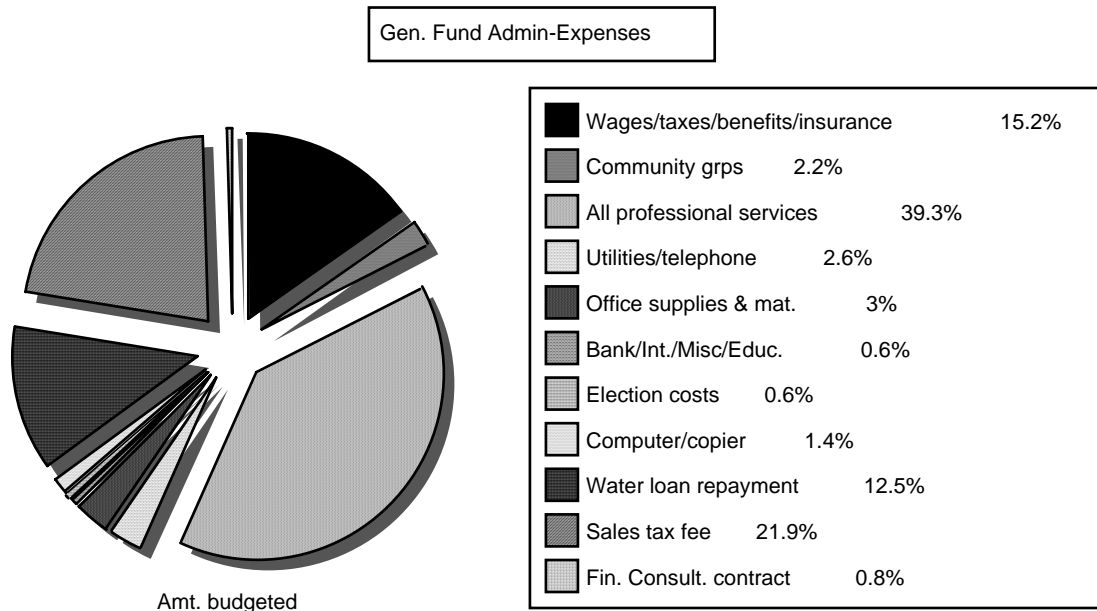
Taxes make up 76.6% of our General Fund income. Income from professional fees (planner, engineer, building inspector) make up for some, but not all of the expenses for those services.

*Data and other financial figures, unless otherwise noted, were taken from the approved FY 2004-2005 budget dated July 12, 2004. Page numbers refer to that source.

** Source: p. 1

Expenses*

Where does your money go in the General Fund? The chart below summarizes General Fund expenses predicted for the coming fiscal year:



The picture is actually more complicated. For example, some of the professional fees spent are collected when residents take out building permits or process a permit application. Other professional fees, such as litigation expenses are not recovered.

Some of the expenses above are one-time costs, for example purchasing a computer and copier, and the sales tax set-up fee. Others, like utilities, are part of the everyday costs of running the government. Some expenses, like "Community grps" (Chamber of Commerce and Library rent) are voluntary decisions made by each City Council.

Is Our Budget "Balanced"?

Technically, yes. That is, in the FY '04-'05 budget approved by the City Council July 14, 2004, General Fund income was greater than expenses by \$649**. Remember, the budget is a "best guess." Some expenses may be higher or lower than expected, and some income may be higher or lower than predicted. Also, we don't know how large the reserve from the last fiscal year is - those figures will be available by September. There will have to be adjustments made with each financial report.

The budget was balanced partly by "borrowing" money from the sale City-owned property on Himalaya Drive. Obviously we can't keep selling off City assets to balance the

budget each year. Rebuilding our reserves (money left over in the General Fund at the end of each fiscal year) will involve a combination of reducing our expenses, e.g. ending litigation expenses, and increasing revenues, e.g. the four-year sales tax increase.

* Source: p. 1-3. Some line items, e.g. professional services, have been added together.

** Source: p. 8

Unknowns and Issues in the General Fund for FY 2004-2005

1. What will our litigation expenses be this year?

The Frame v. Trinidad case may go to trial during this fiscal year. We budgeted \$20,000 for the year, an amount that may be too low, too high, or close to actual.

2. Chamber of Commerce

In past years we allocated \$3,000 from the Transient Occupancy Tax income to the Chamber of Commerce. Last year we eliminated that allocation altogether. This year, as our financial picture improves, we reinstated half (\$1,500) of the allocation. Will we be able to replace the remaining half later in the year?

3. Library rent

The City pays Trinidad Union School District \$4,000/year for the use of room 10 as our branch library. Last year we cut our contribution by half, asking the community to raise the other half. Community groups stepped forward and matched the City's contribution. This year we again budgeted half. If our financial picture improves during the year, can we add the remaining half or should the community again be asked to make up the difference?

There is a possibility that the library may be moving to new quarters, joining the Trinidad Museum in a building behind the Chevron station. The land on which the building would be located is now owned by the Humboldt North Coast Land Trust and the library would lease space from the Museum Society, which would own the building. At this time we don't know when such a move will occur or what the new lease arrangements will be.

4. Sales tax increase

Last spring Trinidad voters approved a 1% increase in the City's sales tax for four years. We have to pay the State Board of Equalization a fee to set up that increase. Cities that have raised sales taxes have incurred fees ranging from \$10,000 to over \$50,000. The State Board would not tell us how much the setup fee would be before the election. We budgeted \$35,000 for that fee, an amount that could be over or under the actual.

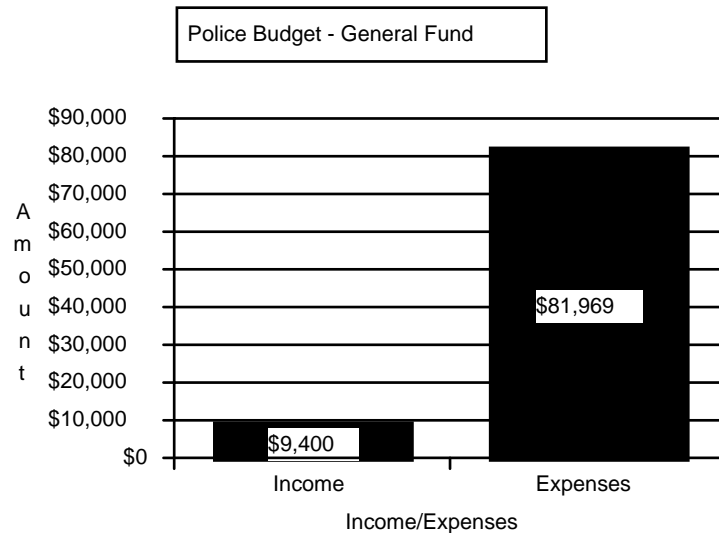
5. Carry-over from FY 2003-2004

The "books" for the last fiscal year ending June 30, 2004 cannot be closed until all income is received and all bills paid through that date. Financial statements are always about a month and a half behind due to paying bills that come in the following month. We should know by the end of August if there is a "reserve" to be carried over into this fiscal year. That reserve could be used to fund extra or unanticipated expenses.

The Police Department

Trinidad's Police Department consists of a Chief and other officers. *Only the Chief's position is funded out of the General Fund.* All other officers are funded by grants, either one-time or annual.

The Police Department budget actually consists of two separate budgets: one in the General Fund for the Police Chief, and the other for grant-funded personnel and expenses. A portion (17.65%) of the Chief's salary is paid from grant funds, since he spends that portion of his time administering grant-funded personnel and operations. A summary of the *General Fund* portion of the Police Department is below:*

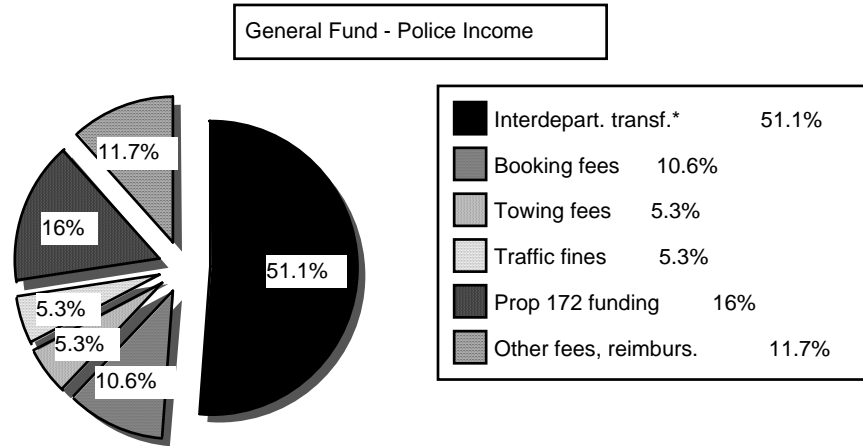


Trinidad's annual General Fund budget can cover the expenses of one police officer - the Chief. Any other police personnel and operations must be paid for from grant funds.

Citizens Options for Public Safety (COPS) is a state-funded program that annually gives Trinidad \$100,000. This year the department budget was augmented with a \$20,000 grant from the Indian Gaming Special Distribution Fund, administered by a County-level committee. Continued grant funding is often uncertain or specifically a one-time award. However, the Chief joins the Council and other law enforcement agencies in working to ensure that COPS funding continues.

Income

Below is a breakdown of General Fund income for the Police Department:**



* Source: p. 5-6

** Source: p. 5

"Interdepart. transf.*" denotes that the Cemetery Fund and Water Fund "reimburse" the Police Department for security patrols on those properties. Total Police Department income for FY 2004-2005 is estimated at \$9,400.

Expenses*

Police Department expenses occur in many categories, summarized below:

Wages, benefits, ins.	\$47,842
Bond, liability, prop./casual.	\$2,227
Rent-annex	\$4,800
Utilities	\$750
Attorney	\$500
Office supp./expenses	\$1,200
Dues/Edu./Training	\$2,000
Animal control	\$250
K-9 program	\$1,200
Booking fees	\$4,000
Uniform, equip.	\$2,100
Investigation costs	\$1,000
Communications	\$2,400
Dispatch	\$6,000
Vehicle fuel, oil	\$3,200
Vehicle repairs	\$1,000
Equip. repair, maint.	\$1,000
Misc. expenses	\$500

Estimated General Fund expenses for the Police Department in FY 2004-2005 are \$81,970. Subtracting projected income leaves an expense to the General Fund of \$72,570 for our Police Chief's services.

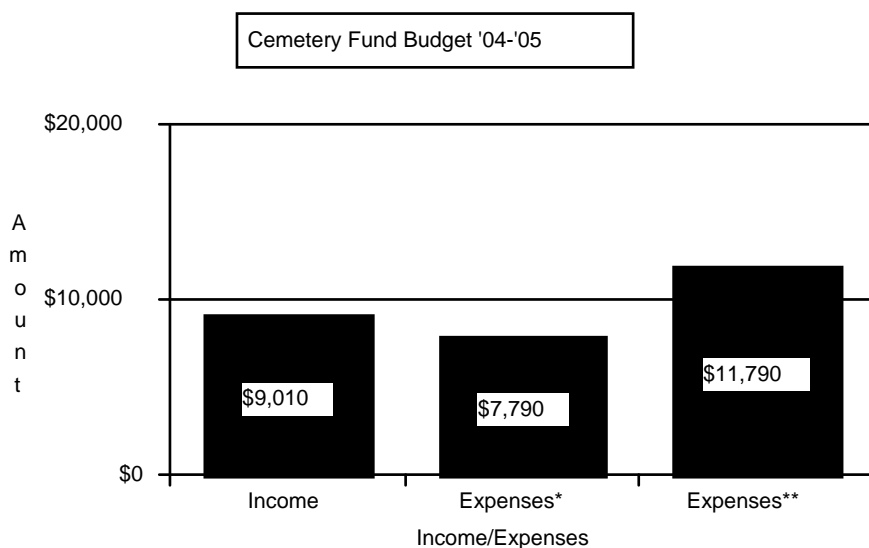
Source: p. 5-6

Cemetery Fund

The other enterprise fund maintains the City-owned cemetery. Income from selling cemetery plots and interest on the reserve build the Cemetery Fund. Council policy set the goal of building a large enough reserve so that when all cemetery plots are sold the interest on the reserve will cover cemetery maintenance.

As with the Water Fund, this year there are two capital projects which cause expenses to exceed anticipated income:

1. Adjusting a property line with an adjacent landowner.
2. Contributing to getting electricity to a shed on cemetery property.



* Expenses without capital projects.

**Expenses including capital projects.

Without these projects, anticipated income would exceed expenses by about \$1,300. With the one-time projects expenses will exceed anticipated revenue by almost \$3,000. At the end of fiscal year '04-'05 the Cemetery Fund reserve is anticipated to be \$102,220.***

***Source: p. 11

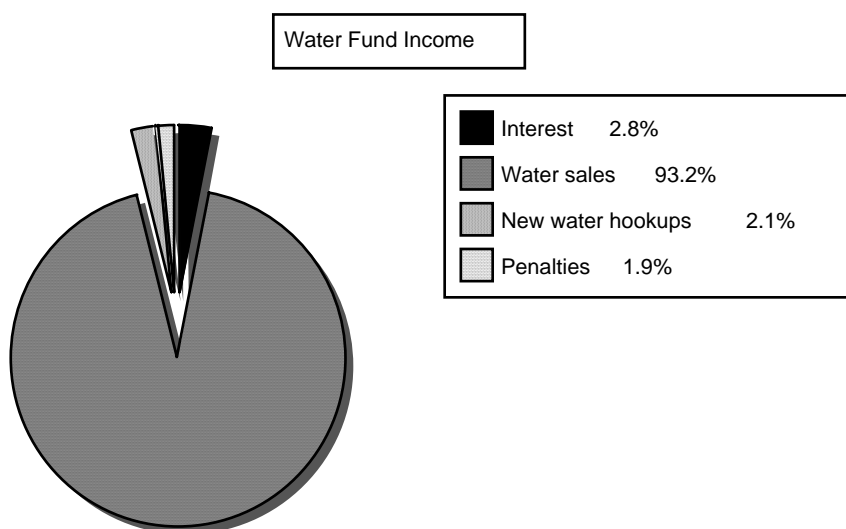
The Water Fund

How is the Water Fund supported?

As an enterprise fund, the Water Fund accumulates money from two main sources: the monthly sale of water to water users and the charge for new water hookups. The Fund also gets income from interest earned and penalties for late payments.

Expenses to the Water Fund include salaries, insurance, chemicals for water treatment, and maintenance to the water plant equipment and facilities.

Income - FY 2004-2005*



- Source: p. 9

Water Source and Treatment

Pumps remove water from Luffenholtz Creek, about two miles south of town on Westhaven Drive. Water is cleaned, chlorinated, and pumped to redwood tanks north of the plant (see attached map).

Providing clean drinking water is a demanding specialized job requiring extensive training and being on-call 24 hours a day. The water treatment plant operator, Noel Ponniah, monitors water quality each day, adjusting chemical treatment as needed. Bryan Buckman, our public works employee, has also been trained as a water plant operator and takes over when Noel is away.

State and federal laws regulate water quality requiring regular testing, filing reports, and changing treatment techniques to meet new standards. All water reports are public information and are available for inspection.

How do we decide how much to charge for water?

The City Council sets water rates. When the Luffenholtz Creek water plant opened, the City Council established a two-tiered rate system: water customers in the city limits pay a lower rate than water customers outside the city limits. A water service area was established between the treatment plant and the city limits, along Westhaven Drive. Residents along the pipeline were allowed to hookup to city water. Hookup fees for non-residents are also higher than hookup fees for residents.

For nearly eleven years the water rates did not increase. However, a few years ago expenses began to exceed income, projecting a decrease in the Water Fund reserve. In 2002 the City Council studied water rates and agreed on two actions:

1. Increase the water rate so income exceeds expenses.
2. Build in an annual cost of living increase so rates keep pace with expenses.

Each May the consumer price index (CPI) is checked and water rates adjusted accordingly. In May 2004 the CPI was 3%, so July 1 water rates increased by that percentage for both resident and non-resident customers. That adjustment will take place each year, depending on the CPI.

Why is the Water Fund reserve so important?

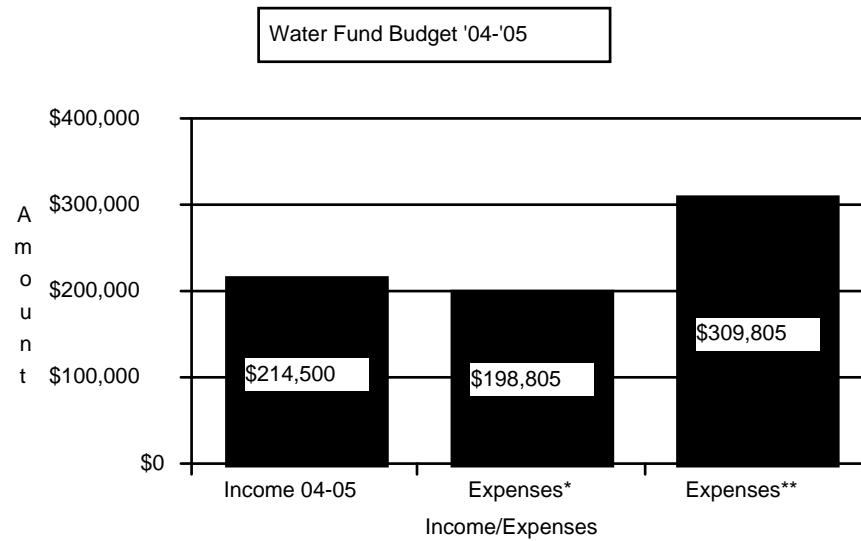
Water plant operations must be self-supporting. Major repairs to the plant, implementing new treatment methods, repairing water line breaks, and everyday plant operation - all must be covered by Water Fund income and its reserve.

This fiscal year there are three major new water projects and one smaller one that will be funded out of the reserve:***

1. Settling a property line dispute with an adjacent property owner.
2. Purchasing property for a new water tank.
3. Burying pipes to increase "chlorine contact time" to improve water quality.

The water commissioner estimates the cost of these projects at \$110,000. A smaller fourth project is \$1000 toward getting electricity to a shed on the cemetery property, where tools and other water-plant items are stored.

Without the three major projects, the Water Fund reserve would grow this year by over \$16,000. However, these one-time project expenses will reduce the Water Fund reserve by around \$100,000.



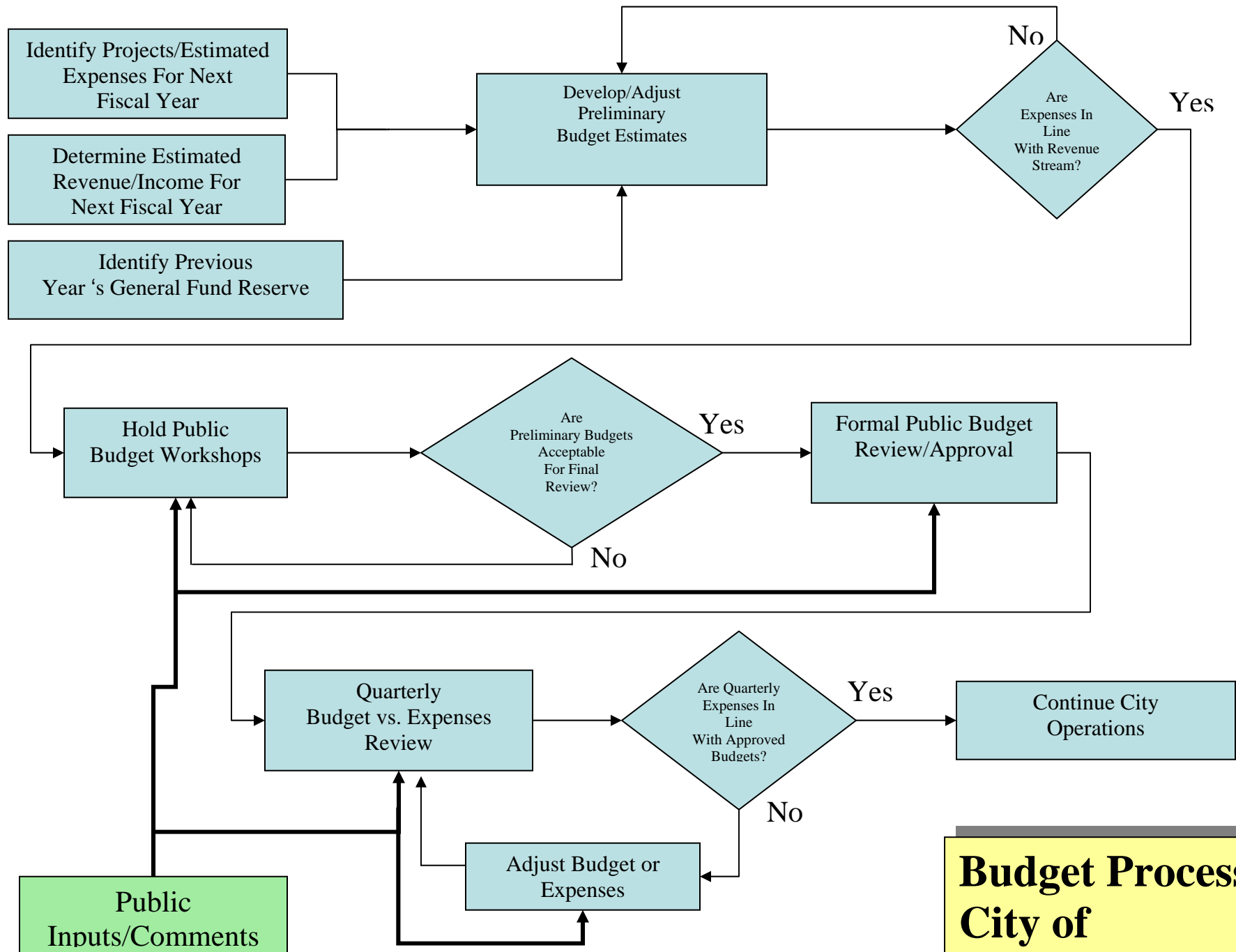
* Expenses not including the four capital projects.

** Expenses including the four capital projects

At the end of this fiscal year, June 30, 2005, the Water Fund reserve will be an estimated \$809,695.****

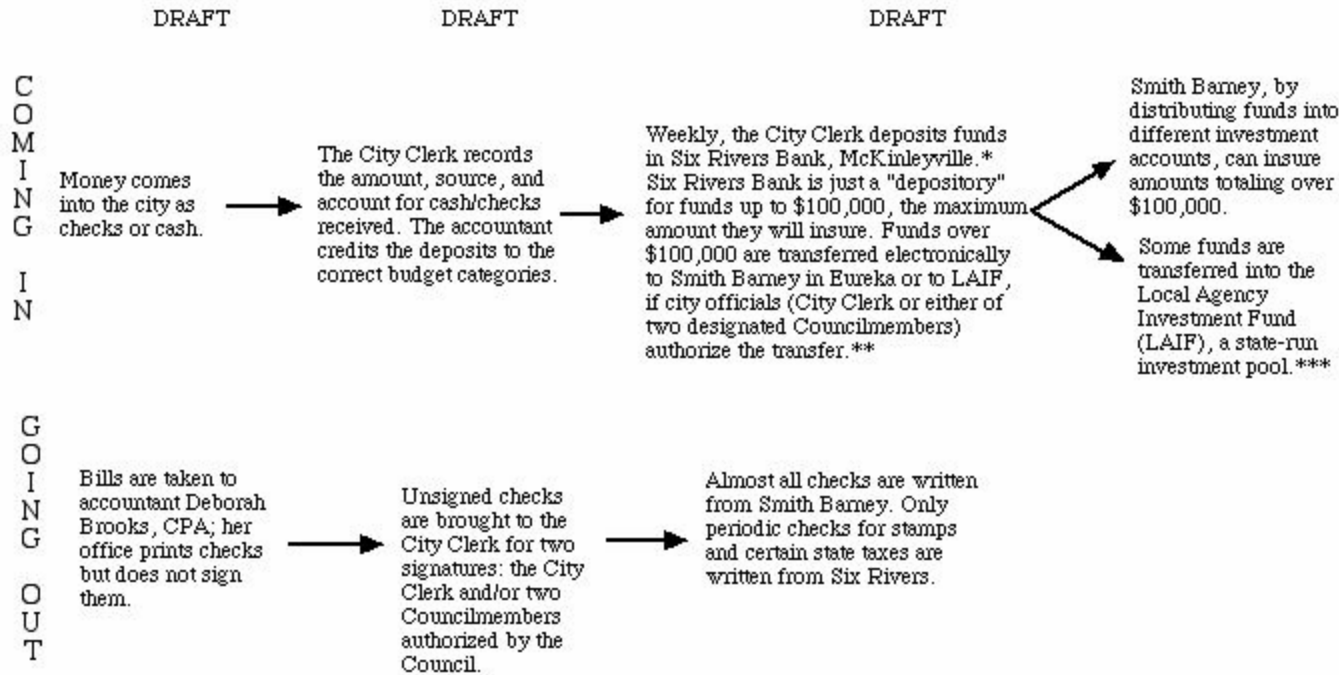
*** Source: p. 10

**** Source: p. 10



Budget Process City of Trinidad, CA

How Does The City Process Funds - Who Has Our Money?



* Why Six Rivers in McKinleyville? Possibly its location, making deposits easier than driving to Arcata or Eureka. Is Six Rivers a better choice than Umpqua Bank? No one in the last four years has compared rates and services between the two banks.

** All fund transfers have hard copy documentation.

*** Additional policy issues/questions:

1. How safe is our money in Smith Barney?
2. How much should we use LAIF rather than Smith Barney? How much do other cities/counties use LAIF?